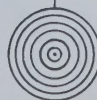




CAREER ACADEMY INC. ANNUAL REPORT 1967



CONCENTRATED



VOCATIONAL EDUCATION

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RESIDENT SCHOOLS LOCATED IN:

Atlanta • Kansas City • Houston • New York • Chicago • San Francisco • Columbus
Milwaukee (2 schools) • Washington, D.C. (2 schools) • Toronto

CORPORATE HEADQUARTERS:

611 E. Wells Street, Milwaukee, Wisconsin Phone: 414 — 272-4822

CAREER ACADEMY INC. AND SUBSIDIARIES

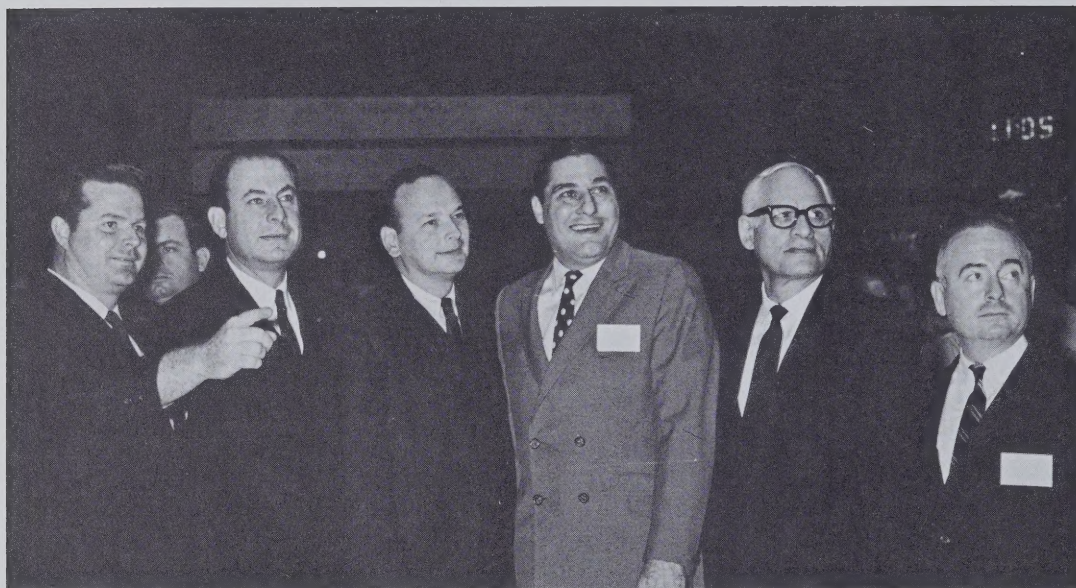
FIVE YEAR SUMMARY OF FINANCIAL HIGHLIGHTS

	1967	1966	1965	1964	1963
Income from students	\$8,233,516	\$4,503,179	\$2,387,145	\$1,056,016	\$502,523
Directorship sales	1,977,076	781,244	295,178	141,824	168,722
Total revenues	10,210,592	5,284,423	2,682,323	1,197,840	671,245
Pre-tax income	3,146,789	1,943,082	518,262	130,506	73,530
Taxes on income	1,500,000	873,800	202,600	36,678	22,330
Net income	1,646,789	1,069,282	315,662	93,828	51,200
Net income per share (1)	0.77	0.51	0.17	0.05	0.03
Resident schools in operation	11	6	5	3	2
Employees	238	180	127	54	40
New student enrollments	12,004	7,010	3,701	2,149	969
Average shares outstanding (2)	2,151,828	2,115,640	1,868,218	1,773,900	1,760,176

(1) Based on the average number of shares outstanding adjusted for stock splits.

(2) After adjustment for stock splits.

CAREER ACADEMY, INC. AND SUBSIDIARIES MANAGEMENT REPORT TO SHAREHOLDERS



Viewing the first trade of Career Academy stock on the American Stock Exchange are L to R: Mr. J. Mann, Exchange Specialist; Gerald J. Kahn, Board Member; K. M. Parelskin, Senior Vice President; W. D. Pavalon, President; M. H. Pavalon, Executive Vice President, and W. L. Liebman, Board Member.

It is with great pleasure that I am able to report to you that the year 1967 was a successful one for your company by every standard of measure.

It was a year in which revenues and income increased beyond projections. It was a year in which your company achieved physical growth, made significant strides in operating efficiency, expanded geographically and took its place among the mature companies of the nation on the American Stock Exchange. It was a year in which important acquisitions were made, new courses were developed and our executive staff was expanded to meet the demands of ever-increasing enrollments. But most of all, 1967 was a year in which we continued to solidify your company, both financially and operationally, in an effort to be better-prepared for immediate growth.

On the basis of our 1967 accomplishments, we can confidently predict continually increasing revenues and profits for the years ahead. I would like to review with you some of the details of 1967 and to describe our future plans for your company.

REVENUES, INCOME AND ENROLLMENTS

Gross revenues of Career Academy Inc. for 1967 were \$10,210,592, an increase of 93% over 1966 revenues of \$5,284,423. Net income after taxes was \$1,646,789 compared to \$1,069,282 for 1966. Earnings per share for the year ended December 31, 1967, increased 51% from \$0.51 to \$0.77. These per share earnings are based on the average number of shares outstanding in each year and have been adjusted to reflect a 100% stock dividend in October of 1967. Student enrollments during the same period rose 71% from 7,010 to 12,004.

Our five-year financial highlight chart on page 2 of this Annual Report will show you that revenues, income and enrollments for 1967 reached new highs for the fifth consecutive year.

In 1968, we expect another sharp increase in these three important areas. At the writing of this report, three months of 1968 have passed and our enrollment figures have increased almost 60% over the same period of 1967. Considering that 1968 enrollments

to date *do not* include any results of our newly acquired schools, we are projecting our rate of growth to continue at a record pace.

In addition to opening new resident schools in Boston and Toronto this year, we will introduce our new course in Investment Banking. Our newly acquired courses in Drafting, Electronic Technology and Hospitality Training are scheduled for expanded marketing on a nationwide basis. We expect to begin enrolling students in our new Insurance Adjusting course later this year. Profit margins should improve as a result of the spreading of selling, administrative and general operating costs over a broader enrollment base.

ACQUISITIONS AND EXPANDED FACILITIES Two key acquisitions made during 1967 have taken our company into a number of new marketing areas.

The acquisition of the Lewis Hotel-Motel Training School, Washington, D. C., has given us an opportunity to tap the mushrooming leisure time-hospitality-recreation market. Lewis, the oldest hotel training school in

America, was founded in 1916 and has given the hospitality world some of its most important management executives. The directorship of the Lewis school will continue under the very able leadership of Miss Mary Bourke. Miss Bourke's family has operated the Lewis school since its inception. The Bourke family included Mr. Edmond Bourke, White House steward under Abraham Lincoln and Mr. Henry J. Trilling, who served as caterer under seven presidents of the United States. We are in the midst of a full scale revision and expansion of the Lewis courses and the establishment of a nationwide marketing organization. A detailed description of the Lewis school is contained in another section of this report.

The second important acquisition was the United Technical Institute of Milwaukee, a successful school which specializes in the training of electronic technicians and draftsmen. Again, this acquisition provides us with an entry into a high-demand field and gives us another entirely different group of student prospects. With the addition of technology

and recreation to our present fields of communications, health and finance, we are continuing to expand into "growth" fields with the greatest demand for skilled employees.

In the area of expansion, we added new resident schools during 1967 in Columbus, Ohio, San Francisco and Kansas City. We also added courses and increased our teaching capacity in a number of existing schools. In addition, we formed a Canadian subsidiary, International Career Academy of Canada Limited, and are now offering broadcasting and health courses throughout Canada. Our first Canadian Resident school will begin classes in Toronto in June, 1968.

CORPORATE FINANCING During the year just ended, Career Academy took a number of steps to significantly improve its financial strength and provide funds for future growth. On September 28, 1967, a \$4,000,000 5-1/8% Convertible Subordinated Debenture issue was sold by the company. The proceeds provided funds for new course development, new schools, the retirement of various short-term notes and installment obligations, the purchase of the Milwaukee school building and additional working capital.

LOOKING TO THE FUTURE As Career Academy continues to mature, we are extremely optimistic about the opportunities open to us for continued sound and rapid

growth. The present demand for education is at an all time high, and expansion possibilities are unprecedented.

We are continuing to concentrate on fields of widespread interest and have been able to achieve and maintain a dominant position in those we have selected. It is our intention to continue an aggressive search for good existing proprietary schools and to develop new courses in the myriad of growth fields where present courses are inadequate or non-existent.

The future unquestionably offers us a favorable climate to capitalize on the worldwide trend toward continuing education for all. We are entering a period of increasing affluence, expanded leisure time, population growth and super-city urbanization. These trends punctuate our society's need for vocationally trained people in virtually every service field and industry. Career Academy has developed the techniques to train people, profitably, for the skills which are required by the dynamics of a changing society.

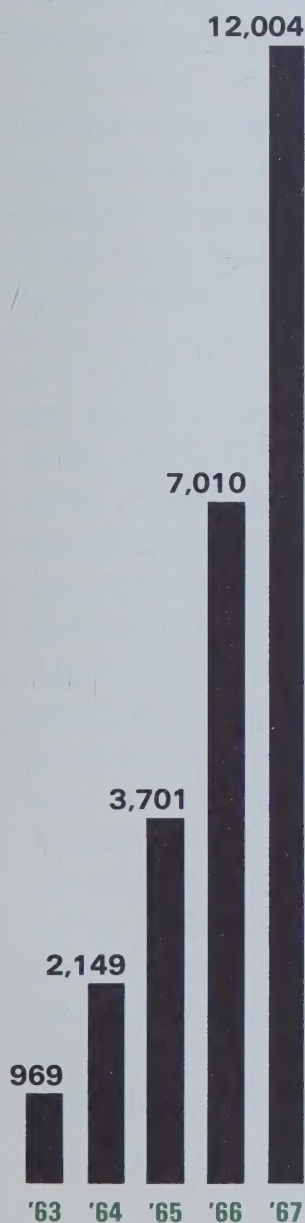
On behalf of the staff of Career Academy and your Board of Directors, we thank you for the confidence you have placed in us and pledge our continuing effort toward increasing the value of your company.



W. D. Pavalon

President and Chairman of the Board

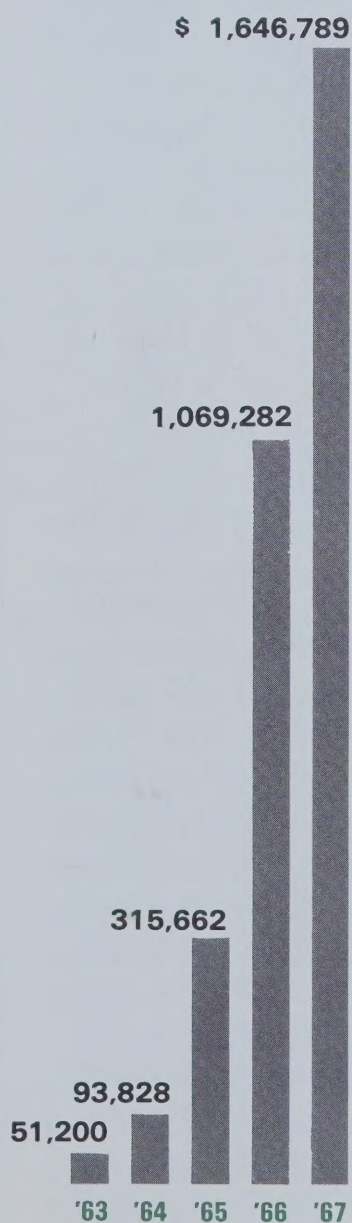
**STUDENT
ENROLLMENTS**



**TOTAL
REVENUES**



**NET
INCOME**



**EARNINGS
PER SHARE**
(Dollars)



CAREER ACADEMY, INC. AND SUBSIDIARIES

A REVIEW OF 1967 OPERATIONS

HOME STUDY SCHOOLS GROW The highest degree of growth achieved during 1967 occurred in our home study schools. This is readily understandable because Home Study education appeals to virtually every age group. It has been projected that, by 1975, more than 15,000,000 people will be learning through Home Study. With the advent of Programmed Instruction, many leading educators are convinced that Home Study offers many advantages that cannot be duplicated in classrooms. The Home Study student learns at his own most comfortable pace. He is not forced to exceed his maximum learning rate, in order to keep up with a swiftly moving class, nor is he held back by slower students. In actual comparison with classroom students, the Home Study student has displayed equal or better retention of material studied.

Our Home Study schools, which began a few years ago in one room with one administrator and two assistants, have increased dramatically. They now occupy two floors in our international headquarters school. Each Home Study student literally is in a class by himself, receiving highly personalized instruction. Broadcast Home Study students, for example, are in a "two-way" student-instructor situation through a continuous chain of tape recordings (i.e., the student's completed lesson assignments and the instructor's verbal, taped critiques). Medical Office Assistant students receive a comparable level of instruction through indi-

vidually prepared letters of commentary from the medical instruction staff.

All Career Academy Home Study courses are accredited by the Accrediting Commission of the National Home Study Council. (The Accrediting Commission has been approved by the United States Office of Education as a "nationally recognized accrediting agency.")

With the anticipated increase from enrollments in our present courses, as well as the addition of other courses, an ever-increasing contribution to corporate growth and profits can be expected from the Home Study Department.

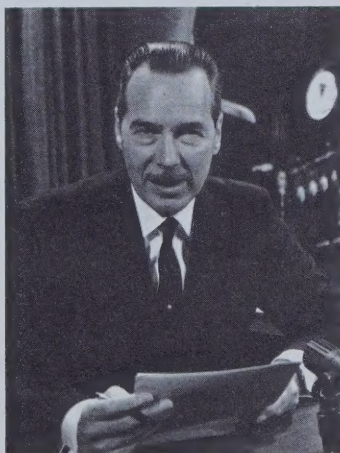
NEW RESIDENT SCHOOLS OPENED IN 1967 — MORE SCHEDULED FOR 1968

As stated in last year's Annual Report, three new resident schools were opened during the year in Kansas City, San Francisco and Columbus. Courses in Medical Assisting, Dental Assisting and Radio-Television Broadcasting are now being taught in all three schools. Dental Technology is also now being taught in our San Francisco school. Late in 1967, the Lewis Hotel-Motel School, Washington, D. C., and the United Technical Institute School in Milwaukee were added through acquisition. During 1968, we will open our new Canadian headquarters school in Toronto and a new school in Boston. This will bring our total number of resident schools to 13 by the end of 1968.

X

CANADIAN SUBSIDIARY IN FULL OPERATION

Perhaps the most significant step in the expansion of our operations was the formation of our Canadian subsidiary, International Career Academy of Canada, Ltd. Our Canadian subsidiary is headed by Larry Henderson, one of the best known network news analysts in the history of Canadian broadcasting. Mr. Henderson is also well-known as one of Canada's outstanding lecturers, authors and broadcast educators. Mr. Henderson is also a member of our broadcasting Directing Faculty. Joining him on our Directing Faculty in Canada is Danny Gallivan, well-known radio and TV sportscaster for the Montreal Canadiens. Danny's face and voice are familiar to millions of Canadians from coast to coast, who watch National Hockey League games each week. Our new Canadian school in Toronto will offer courses in Medical Assisting, Dental Assisting and Radio-Television Broadcasting. In addition, it will serve as the headquarters for our Canadian Home Study schools.



Mr. Larry Henderson, veteran CBC broadcaster, assumes Presidency of Career's Canadian Schools.



Shown interviewing a National Hockey League player is Canadian sportscaster Danny Gallivan, who has joined the Directing Faculty of Broadcasting School.

EXECUTIVE STAFF GROWS To keep pace with current and future growth, a number of young executives were added to our management staff. Mr. Stuart D. Mishlove was appointed Financial Vice President. Mishlove, 31, came to Career from a leading industrial concern, where he had been treasurer, controller and a director. The addition of Mr. Rudy Heymann, 45, Vice President—Personnel, has strengthened this vital department. Mr. Gene H. Williams, 39, was appointed Manager of Systems and Procedures and will head the Operational Task Force responsible for the collection and processing of Operational Data. Williams held a similar position in industry, prior to joining Career.

In a major company promotion, Mr. Kenneth M. Parelskin, 40, who had been Executive Vice President—Admissions, was advanced to the position of Senior Vice President and Director of Operations of the

company. Parelskin's prior position was filled by the promotion of Mr. August Z. Becker, 39, to the position of Executive Vice President — Admissions. Mr. Morton B. Levin, 31, was promoted to Vice President — Marketing and Mr. Gordon A. Egelseer, 33, was advanced to Vice President — Home Study.

Two prominent executives were appointed to the Board of Directors of Career Academy. They are Mr. George S. Parker II, President of The Parker Pen Company and Mr. Stanley L. Rewey, Executive Vice President of the Marshall & Ilsley Bank, Milwaukee.

CENTRAL SERVICES EXPANDED For the second consecutive year, the Central Services Department was expanded to meet the demands of increasing numbers of inquiries and enrollments and job placement assistance for graduates. Central Services is the "nerve center" of Career Academy. To this unique department falls the responsibility of receiving, processing and distributing virtually all data relating to prospective students, newly enrolled students and Career Academy graduates. During 1968 this department will process more than 200,000 inquiries from prospective students. With the addition of a new IBM 360 computer, scheduled for installation during 1968, Central Services will increase its data-handling capacity to the level required by our anticipated growth. As inquiries are received at our international headquarters from virtually every corner of the world, Central Services analyzes them, records information on their source, geographical location, course to

which they pertain and other details on the prospective students. This tells us what literature must be sent to the prospective students and which of our regional directors should be involved in providing them with further information.

This swift analysis gives the exact number of inquiries from each source and the number of inquiries and enrollments serviced by each of our regional directors.

Perhaps the most important function of Central Services is to offer continual placement assistance to all Career Academy graduates. This department, which is in contact with the prospective employers of our graduates, processes requests for graduates and matches job openings with the graduates. In addition, a permanent file on each Career Academy graduate is maintained so that placement assistance can be offered to graduates on a continuing basis.

While it is hard to conceive of an automated department being able to offer encouragement and motivation, Central Services does exactly that. During the important and sensitive period between enrollment and the beginning of a student's instruction, a flow of "encouragement" is directed at the new enrollee from this department. In this manner, a student's interest is kept at a high level until he begins his training, and in many cases, a student is saved from a momentary change of mind or lack of self-confidence. In effect, this important line of communication serves to reaffirm the student's decision, sustaining a continuing interest on his part.

CAREER ACADEMY INC. AND SUBSIDIARIES

COURSES & CURRICULUM

OUR PRODUCT IS EDUCATION

Our market — numbering in the hundreds of millions — consists of men and women of all ages, from all walks of life — people everywhere . . . who want to improve themselves socially, financially and professionally . . . who are interested in preparing themselves for secure, well-paying careers . . . are finding that Career Academy training enables them to attain their vocational objectives more quickly, easily and enjoyably than they ever dreamed possible!

A primary factor in the strong appeal of Career Academy training is the unique blending of home study courses with the brick and mortar image and facilities of resident schools strategically located throughout North America. Home study students may elect to receive a terminal period of classroom instruction after completion of their home study course.

MEETING A GROWING NEED

Career Academy concentrates exclusively on specialized training programs not generally available in colleges. The curriculums for these training programs have been developed and are regularly up-dated by the members of our Directing Faculties and other leading authorities in the respective fields. Teaching methods include programmed instruction, learn-by-doing techniques and many of the most modern audio-visual aids. Where course material lends itself properly, a home study course is presently offered or will be offered in addition to resident school training.

Perhaps the most important aspect of the "Career Academy Method" is the selection of courses to be taught. Through extensive and continuing in-depth, broadly based market surveys, Career has selected growth fields in which the demand for skilled personnel greatly exceeds the supply. Career is now offering technical education in the important fields of

HEALTH SERVICES/ COMMUNICATIONS HOSPITALITY AND RECREATION INDUSTRIAL TECHNOLOGY/ FINANCE

On the following pages, the curriculum for each of our courses is described along with pertinent data on the long-range personnel needs in each field.

HEALTH SERVICES



MEDICAL ASSISTING

More than two-thirds of the 300,000 physicians in the United States are in private practice. As the demand for their services increases, new openings will be created for graduate medical assistants.

At Career Academy, students in training to become Medical Assistants receive thorough training in typing, medical vocabulary, telephone technique, record keeping, general office duties, first aid, sterilization, examination procedures, injections, X-ray, basal metabolic rate, electrocardiography, chemical and microscopic urinalysis, and basic hematology. Home Study students obtain similar training in Career Academy's exclusive Medical Office Assistant program (the only Home Study course of its kind in existence).

The Career Academy graduate medical assistant is trained to relieve the physician of many important functions, allowing him to devote his energies to areas that require his particular professional knowledge and skill.

MEDICAL TECHNICIAN

To be eligible for medical technician training, Career students (male and female) must be graduates of the course in Medical Assisting or its equivalent.

The student medical technician is trained in laboratory techniques and procedures generally performed in hospitals and large medical clinics.

HEALTH SERVICES

The curriculum includes Medical Laboratory Orientation, Advanced Hematology and Urinalysis, Parasitology, Anatomy, Physiology, Inorganic and Organic Chemistry, Clinical Biochemistry, Serology, Blood Banking, Medical Microbiology, Histopathology and other Advanced Laboratory Procedures.

As the medical community depends increasingly upon laboratory tests for diagnostic work and treatment, the need for trained medical technicians is expected to expand at a far greater pace than the rate at which new medical technicians become available. The employment opportunities for graduate technicians are virtually unlimited.

DENTAL ASSISTING

A recent study published by the Department of Health, Education and Welfare, tells of the need for a force of 220,000 trained dental assistants within the next few years—an increase of 130,000 over the current supply. Career Academy dental assistant students study typing, dental vocabulary, telephone technique, record keeping, general office duties, chairside assisting, care and sterilization of instruments, as well as the taking, developing and mounting of X-rays.

Their laboratory experience includes mixing and preparation of impression materials; preparing bite rims; mixing of silver amalgams, cements and silicates; casting of gold inlays and other specialized procedures.

Career Academy offers the dentist important relief from office details by training an intelligent, alert graduate who is equipped to serve the special needs and procedures of a dental practice.

DENTAL TECHNOLOGY

Dental Technology has been cited as an industry which is seriously in need of trained men and women to meet the present and future demands. This need exists in all areas of the dental technology industry, including the more than 6,500 commercial dental laboratories, the armed forces, hospitals and the thousands of individual dentists who employ laboratory technicians in their own practice.

The dental technology course is open to both men and women and includes training for the skills and techniques necessary to construct gold jacket crowns, bridges and single tooth inlays; the skills of making partial dentures; the making of full dentures and the making of crowns and bridges of fused porcelain or processed plastic. The student also learns how to establish his own laboratory and how to obtain a position with a commercial laboratory.

COMMUNICATIONS



RADIO-TV BROADCASTING

The amazing growth of the radio and television industry during the past 10 years has created an unprecedented call for trained broadcasters that will increase even more in the decade ahead. Over 6,000 stations throughout the U.S. and Canada are in need of trained people with news gathering-reporting, sportscasting, announcing and other on-the-air talents of every kind.

The radio and television broadcasting course offered by Career Academy in both its resident and home study schools has been designed by top broadcasters to give students a concentrated exposure to the major areas of broadcasting and to equip them for positions in the industry.

Simulated local radio and TV training studios give students "on-the-air" confidence, and contain the latest communications equipment including teletype news services, closed circuit television systems and actual TV studio settings.

INDUSTRIAL TECHNOLOGY

UNITED TECHNICAL INSTITUTE

(Newly Acquired School)



ELECTRONICS TECHNICIAN

The pace of electronic research and development and manufacturing represents the most dramatic rise of any existing industrial category.

It is anticipated that during the next decade the demand for electronics technicians will top the list of critical personnel requirements.

Through the acquisition of United Technical Institute, Milwaukee, a successful and well-known technical school, Career Academy has entered another primary growth field requiring concentrated technical training.

U. T. I. offers a complete course in basic electronics along with specialized electives in industrial and communications technology.

Graduates of U. T. I. hold positions with major manufacturing firms, government and military agencies and engineering laboratories, enjoying excellent salaries and opportunities for advancement.

The progress of electronics technology dictates the ever-increasing need for trained technicians. We are planning, therefore, to expand considerably the U. T. I. marketing program to attract qualified students and train them for positions in this booming field.



DRAFTING

The demand for trained draftsmen closely parallels that for electronics technicians. Since draftsmen perform a vital function in the preparation of drawings from engineering sketches and specifications, almost no manufacturing process can proceed without the draftsmen's contributions. Architectural, mechanical and electronic drafting are covered in the comprehensive U. T. I. course of drafting technology. Individual instruction is offered in the proper use of instruments, line technique, lettering, freehand sketching, projections, and working schematic diagrams.

Industry, with its increasing dependency upon this specialist, has put a premium on the draftsman's talents. United Technical Institute's drafting course has been acknowledged by leading manufacturers as excellent training. In some cases, manufacturers have offered to finance the training of students at U. T. I. to assure themselves of an adequate number of graduate draftsmen.

HOSPITALITY AND RECREATION

THE LEWIS HOTEL-MOTEL SCHOOLS

(Newly Acquired School)

The advent of a shorter work week will provide more free time, much of which will be spent in travel. Against this background of a brilliant future for the leisure time-travel field, there is a vital and continually increasing need for people in the management area of hotels, motels, resorts, restaurants, schools, private clubs and apartment complexes.

The purchase, during 1967, of the Lewis Hotel-Motel Schools, Washington, D.C., marked Career's entry into the booming field of hospitality and leisure time activity.

The present-day Lewis school is the product of more than half a century of hotel-motel training. Its co-founders, Clifford and Mary Lewis, began the school in 1916. Clifford's father, Major Morgan Lewis, managed the restaurant in the U.S. House of Representatives and Washington's famous Willard Hotel. The Lewis school has remained in the same family since its inception and is today directed by Miss Mary Bourke, niece of Clifford Lewis.

During its 52 years, the Lewis school has provided the hospitality industry with many prominent executives. The Lewis training program keeps pace with the significant changes in the hospitality field. Today, for example, the Lewis curriculum covers motel operation, automated hotel equipment and other recent developments, as well as the traditional hospitality services.

The Lewis school is an accredited member of both the National Home Study Council and the National Association of Trade and Technical Schools—the only hospitality management school in the world which enjoys this double accreditation.

The Lewis course has a wide appeal to people in all age brackets, and we anticipate that through Career Academy marketing methods, the demand for this training can be stimulated among the thousands of additional people who are seeking a future in this exciting field.

FINANCE

INVESTMENT BANKING OPERATIONS

(Newly developed Course)

In 1958, an average of three million shares of stock were traded each day on the New York Stock Exchange. By 1966, this average rose to 7.5 million shares per day. Currently, trading volume is running as high as 20 million shares per day and promises to rise even higher. This increased market activity has led to an acute shortage of adequately trained operations personnel in every department of investment banking firms. In late 1967, with the assistance of experts from various member firms of the national stock exchanges, Career Academy began the preparation of a programmed instruction course that would train the personnel who could help to meet needs of the investment field.

The course contains a curriculum which will train students for positions in the order, cashier, and purchase and sales departments of investment banking houses. It will be offered for the first time in 1968 and will cover the elements of investment banking, basic accounting principles, all operational functions and a complete orientation in the field of investments, including exchange operations, industry terminology, buying and selling of securities, dividends, proxies, security position records, margin accounts, etc.

Surveys show that the investment banking community in the New York area alone needs 13,000 new people immediately and that the national needs run to 40,000. This picture is characteristic of the kind of employment opportunities that have created such a demand for the other Career Academy courses, and we are anticipating a similar response to this new course.

CAREER ACADEMY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1967 AND 1966

REVENUES (Notes 2 and 3):	1967	1966
Income from students	\$ 8,233,516	\$4,503,179
Sales of directorships	<u>1,977,076</u>	<u>781,244</u>
	<u>\$10,210,592</u>	<u>\$5,284,423</u>
COSTS AND EXPENSES:		
Instruction cost	\$ 1,945,022	\$ 804,450
Selling, general and administrative expenses	<u>5,060,052</u>	<u>2,521,496</u>
	<u>\$ 7,005,074</u>	<u>\$3,325,946</u>
Operating income	<u>\$ 3,205,518</u>	<u>\$1,958,477</u>
OTHER INCOME (EXPENSE):		
Interest expense	\$ (107,875)	\$ (29,886)
Other income, net	<u>49,146</u>	<u>14,491</u>
	<u>\$ (58,729)</u>	<u>\$ (15,395)</u>
Income before provision for income taxes	<u>\$ 3,146,789</u>	<u>\$1,943,082</u>
FEDERAL AND STATE INCOME TAXES (Note 4):		
Current	\$ 290,000	\$ 45,000
Deferred	<u>1,210,000</u>	<u>828,800</u>
	<u>\$ 1,500,000</u>	<u>\$ 873,800</u>
Net income for the year	<u>\$ 1,646,789</u>	<u>\$1,069,282</u>
Earnings per share (Note 9)	<u>\$.77</u>	<u>\$.51</u>
Pro forma earnings per share (Note 10)	<u>\$.75</u>	<u>\$.49</u>

The accompanying notes are an integral part of this statement.

CAREER ACADEMY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1967 AND 1966

ASSETS

CURRENT ASSETS:

	1967	1966
Cash	\$ 541,330	\$ 127,802
Certificates of deposit	1,500,000	—
United States Government securities, at cost	294,123	—
Notes and accounts receivable —		
Tuition and fees (Note 2)	\$ 5,169,869	\$2,137,700
Regional directors and other	298,235	50,900
Installment notes — current portion, less unearned finance fees of \$70,452 in 1967 and \$66,545 in 1966 (Notes 2 and 3)	<u>304,548</u>	<u>193,441</u>
	\$ 5,772,652	\$2,382,041
Less — Allowance for bad debts and contract terminations (Note 2)	<u>950,000</u>	<u>275,000</u>
	\$ 4,822,652	\$2,107,041
Prepaid expenses	<u>466,090</u>	<u>354,343</u>
Total current assets	\$ 7,624,195	\$2,589,186

INSTALLMENT NOTES RECEIVABLE,

less current portion included above and unearned finance fees and allowance for possible losses of \$747,531 in 1967 and \$203,013 in 1966 (Notes 2 and 3)	2,599,905	953,458
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FIXED ASSETS, at cost (Note 5):

Land	\$ 295,000	\$ —
Buildings	296,335	—
Furniture and equipment	1,022,347	541,053
Leasehold improvements	<u>582,147</u>	<u>308,153</u>
	\$ 2,195,829	\$ 849,206
Less — Accumulated allowance for depreciation	<u>289,936</u>	<u>162,228</u>
	\$ 1,905,893	\$ 686,978

DEFERRED CHARGES (Note 1)	850,306	283,702
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UNAMORTIZED BOND DISCOUNT	234,732	—
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OTHER ASSETS	<u>73,192</u>	<u>69,910</u>
	<u>\$13,288,223</u>	<u>\$4,583,234</u>

The accompanying notes are an integral part of this balance sheet.

LIABILITIES

CURRENT LIABILITIES:

	1967	1966
Notes payable to bank	\$ —	\$ 115,000
Current maturities of long-term debt	23,072	137,539
Accounts payable	232,287	69,088
Accrued salaries, wages and commissions	844,454	292,600
Accrued taxes other than income taxes	50,750	38,236
Accrued future cost of instruction	1,345,986	439,706
Reserve for income taxes on cash basis (Note 4)	291,673	45,000
Deferred income taxes (Note 4)	1,080,356	623,265
Total current liabilities.	\$ 3,868,578	\$1,760,434

LONG-TERM DEBT,

less current maturities included above (Note 5):

5-1/8% convertible subordinated debentures due September 1, 1987 (Note 11)	\$ 3,981,000	\$ —
Mortgage notes payable	213,686	—
Installment notes payable	35,267	103,763
Subordinated notes, 7%	—	52,000
Subordinated debentures, 6%	—	42,500
	<u>\$ 4,229,953</u>	<u>\$198,263</u>

DEFERRED INCOME TAXES (Note 4)	1,276,558	509,200
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STOCKHOLDERS' INVESTMENT:

Common stock, \$.10 par value, authorized 3,000,000 shares,
issued and outstanding 2,165,240 shares in 1967

and 1,068,362 shares in 1966 (Note 7).	\$ 216,524	\$ 106,836
Paid-in surplus, per accompanying statement	651,945	445,044
Retained earnings, per accompanying statement (Note 5).	3,044,665	1,563,457
	<u>\$ 3,913,134</u>	<u>\$2,115,337</u>
	<u>\$13,288,223</u>	<u>\$4,583,234</u>

CAREER ACADEMY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF PAID-IN SURPLUS
AND RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1967 AND 1966

PAID-IN SURPLUS	1967	1966
Balance, beginning of year	\$ 445,044	\$ 425,466
Excess of net assets over par value of shares issued to acquire a subsidiary in a pooling of interest transaction (Note 1)	<u>149,934</u>	<u>—</u>
Balance, beginning of year, as restated	\$ 594,978	\$ 425,466
Add —		
Excess of proceeds received over par value of common stock sold (Note 7)	39,214	19,578
Excess of conversion price on 5-1/8% debentures converted over par value of common stock issued, less related unamortized bond discount	<u>17,753</u>	<u>—</u>
Balance, end of year	<u>\$ 651,945</u>	<u>\$ 445,044</u>
 RETAINED EARNINGS		
Balance, beginning of year	\$1,563,457	\$ 566,817
Retained earnings at the beginning of the year of company acquired in a pooling of interest transaction (Note 1)	<u>(57,789)</u>	<u>—</u>
Balance, beginning of year, as restated	\$1,505,668	\$ 566,817
Add — Net income for the year	<u>1,646,789</u>	<u>1,069,282</u>
	\$3,152,457	\$1,636,099
Deduct —		
Transfers to common stock in connection with stock splits —		
March 25, 1966, 3-for-2 effected in the form of a 50% stock dividend	—	17,496
October 19, 1966, 2-for-1 effected in the form of a 100% stock dividend	—	53,418
October 6, 1967, 2-for-1 effected in the form of a 100% stock dividend	<u>107,792</u>	<u>—</u>
Cash dividends in lieu of fractional shares	<u>—</u>	<u>1,728</u>
Balance, end of year (Note 5)	<u>\$3,044,665</u>	<u>\$1,563,457</u>

The accompanying notes are an integral part of these statements.

CAREER ACADEMY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNDS PROVIDED AND USED
FOR THE YEAR ENDED DECEMBER 31, 1967

FUNDS WERE PROVIDED FROM:

Operations —		
Net income for the year	\$1,646,789	
Add — Noncash charges — depreciation and amortization	<u>120,435</u>	\$1,767,224
Increase in long-term portion of deferred income taxes		767,358
Proceeds received from long-term debt net of payments made during the year and unamortized bond discount		3,814,772
Proceeds received on stock options exercised and on sale of stock		40,260
Net assets acquired in pooling of interest transaction		<u>92,934</u>
Total funds provided		<u>\$6,482,548</u>

FUNDS WERE USED FOR:

Increase in long-term portion of installment notes receivable.	\$1,646,447
Net additions to fixed assets.	1,339,350
Increase in deferred charges	566,604
Increase in other assets	<u>3,282</u>
Total funds used	<u>\$3,555,683</u>
Excess of funds provided over funds used representing an increase in working capital	<u>\$2,926,865</u>

The accompanying notes are an integral part of this statement.

CAREER ACADEMY INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1967

NOTE 1

Basis of Consolidation—

The consolidated financial statements include the accounts of the Company's wholly owned subsidiaries. All material intercompany transactions and account balances have been eliminated in consolidation.

During the year, the Company acquired the remaining 50% of outstanding stock and acquired a note for \$100,000 (which was convertible into bonds and separate warrants for the purchase of 2,500 shares of United Technical Institute, Inc. at a price equal to the face value of the note) of United Technical Institute, Inc. in exchange for 7,890 shares of common stock of Career Academy, Inc. This transaction, for accounting purposes, was treated as a pooling of interests and accordingly the consolidated statement of income for the year 1967 includes the operating results of United Technical Institute, Inc. for the entire year. The consolidated statement of income for 1966 was not restated to reflect the operations of this Company since they were not significant.

In November, 1967, the Company purchased all of the outstanding stock of Lewis Hotel Training School, Incorporated. This transaction, for accounting purposes, has been accounted for as a purchase and accordingly the results of operations of Lewis since date of acquisition have been included in the consolidated statement of income for 1967.

The Company's investment in Lewis exceeded the underlying book value at the acquisition date. This amount has been allocated to land, buildings, and course development costs based on an appraisal and on management's estimate of the course development costs. The allocated costs to buildings will be depreciated over the estimated useful life of the building; and the course development costs of \$638,272 included in deferred charges will be amortized to future operations based on the number of future enrollments. It is estimated that this will result in amortizing this cost over a period of approximately six years.

NOTE 2

Accounting for Revenues and Income—

The full amount of a student enrollment contract is recorded as income at the time the contract is signed. The unpaid balance of these contracts is reflected in the consolidated balance sheet as tuition and fees receivable. Estimated future costs and expenses related to these contracts are accrued and included in current liabilities and are charged against income. These costs and expenses consist of: (1) cost

of instruction, books and classroom expenses, (2) sales commissions, and (3) certain general and administrative expenses. A reserve has been provided for loss of income which may result from anticipated contract terminations and the current provision has been charged against income from students in the accompanying consolidated statement of income.

Income and the related costs attributable to the sale of directorships and the right to secure directorships are recognized at the time the contract is signed. In the accompanying consolidated balance sheet the unpaid balance of these contracts is shown as installment notes receivable.

NOTE 3

Installment Notes Receivable—

Installment notes receivable consist of amounts due from divisional and regional directors for territorial rights to market Career Academy courses in designated areas. The notes are payable in varying amounts over a five-year period. In the event that a distributor fails to pay according to the terms of the note the Company can enforce payment or reacquire the territory for resale. It has been the Company's experience that the resale value of the territory has been equal to or greater than the note amounts.

A reserve of \$650,000 has been provided at December 31, 1967, for possible losses in collection. This provision has been charged against revenues from sale of directorships in the accompanying consolidated statement of income.

The unearned finance fees of \$97,531 in 1967 and \$203,013 in 1966 have decreased and will eventually be eliminated because the Company has changed its interest arrangements on notes receivable. Interest which previously was incorporated in the face of the note is now computed on the simple interest basis.

NOTE 4

Deferred Income Taxes—

The provision for income taxes in the accompanying financial statements has been computed on income determined on the accrual basis. For income tax purposes the Company determines income on the cash basis and has computed the taxes applicable thereto. Income taxes which may eventually be payable on the difference between accrual and cash basis income have been recorded as deferred taxes. The amount excluded from current liabilities represents deferred income taxes on the noncurrent installment notes receivable.

NOTE 5

Long-Term Debt—

The 5-1/8% subordinated debentures are convertible into common stock at a price of \$31.00 per share. As of December 31, 1967, 128,422 shares of unissued common stock are reserved for issuance upon conversion under this option. Under the terms of the indenture, as of December 31, 1967, \$2,090,379 of retained earnings was restricted as to the payment of cash dividends and purchase of company stock.

The long-term portion of the mortgage notes payable consist of the following balances:

5½% note, due on May 1, 1969	\$ 35,000
6% note, due in 1985	<u>178,686</u>
	<u>\$213,686</u>

Payments on the 6% note are due in equal monthly installments of \$1,434 until maturity. Certain land and buildings are pledged as collateral on both of the above notes.

The Company has financed certain leasehold improvements under various types of financing arrangements. These unsecured installment notes of \$35,267 are payable over four years with interest ranging from 5 to 6½%.

NOTE 6

Lease Commitments—

The Company leases offices, instructional space and in some cases leasehold improvements at various locations. At December 31, 1967, the Company's obligation for annual rentals under such leases amounted to approximately \$338,000. These leases will expire from 1969 through 1986.

NOTE 7

Employees' Stock Option Plan and Stock Warrants—

On March 31, 1964, the Company adopted a Qualified Stock Option Plan, and 90,000 shares of common stock were reserved under the plan. Options are granted at the fair market value of the shares at the date of grant and expire five years from that date. They may be exercised only while the optionee is employed by the Company. Options may not be exercised before five years from the date of employment, except when the option committee reduces such period. At December 31, 1967 and 1966, options, net of cancellations,

had been granted for 78,150 and 84,550 shares, respectively, and options available for future grant were 11,850 and 5,450, respectively.

A summary of the option transactions during the year are as follows:

	<u>Options Outstanding</u>	<u>Option Price Per Share</u>
Balance, beginning of year, after giving consideration for 2-for-1 split on October 6, 1967	47,650	\$.55-\$11.33
Options granted	2,600	13.75 - 19.50
Options exercised at an aggregate amount of \$27,005	(19,050)	.55 - 3.29
Options canceled	(9,000)	.55
Balance, end of year	<u>22,200</u>	<u>.55 - 19.50</u>

Proceeds in excess of par value on options exercised during 1967 have been added to paid-in surplus.

In connection with the issuance of 7% subordinated notes, which were retired during the year, the Company had granted warrants to purchase an aggregate of 90,000 shares of common stock. As of January 1, 1967, and December 31, 1967, warrants to purchase 22,500 shares of common stock at an aggregate price of \$9,600 (\$.425 per share) were outstanding. These warrants were exercised in January, 1968.

NOTE 8

Contingent Liabilities—

The Company is contingently liable for student notes discounted which amounted to \$1,672,056 at December 31, 1967. The allowance for bad debts and contract terminations is considered adequate to cover any losses resulting from the discounted notes.

NOTE 9

Earnings Per Share—

Earnings per share are based upon the average number of common shares outstanding after giving effect to stock splits of 3-for-2 on March 25, 1966, of 2-for-1 on October 19, 1966, and of 2-for-1 on October 6, 1967, and to the shares issued in the 1967 pooling of interest transaction. The average number of common shares outstanding were 2,151,828 in 1967 and 2,115,640 in 1966.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 10

Pro Forma Earnings Per Share—

The pro forma earnings per share have been computed showing the effect if the outstanding stock options and stock warrants at the end of the respective years were exercised and if the 5-1/8% convertible subordinated debentures outstanding at December 31, 1967, were converted. Interest expense, on the convertible debentures of \$27,000, net of applicable income tax, was eliminated in making this computation.

NOTE 11

Debt Discount Attributable to Conversion Privileges on Convertible Subordinated Debentures—

The Accounting Principles Board (APB) in its Opinion No. 10 recommended attribution of a portion of the proceeds of convertible security sales to conversion privileges and warrants. Since the APB has the subject under study and has suspended the applicable paragraphs of Opinion No. 10, the Company has not reflected debt discount on the recent sale of convertible subordinated debentures.

If Opinion No. 10 had been followed, total debt discount approximating \$720,000 would have been recognized and attributed to the convertible feature of the debentures sold in 1967 with a corresponding credit to capital surplus. The final action of the APB may require retroactive recognition of these amounts. Amortization of debt discount for 1967 would have no effect on earnings per share.

NOTE 12

Prior Year Financial Statements—

The consolidated balance sheet as of December 31, 1966, and the consolidated statements of income, paid-in surplus and retained earnings for the year then ended, which are presented for comparative purposes, were examined and reported on by public accountants other than Arthur Andersen & Co.

NOTE 13

Restatement of 1966 Amounts—

Certain 1966 amounts have been restated to conform with 1967 classifications.

AUDITORS REPORT

To the Board of Directors of
Career Academy, Inc.:

We have examined the consolidated balance sheet of CAREER ACADEMY, INC. (a Delaware corporation) AND SUBSIDIARIES as of December 31, 1967, and the related consolidated statements of income, paid-in surplus, retained earnings and funds provided and used for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements referred to above present fairly the financial position of Career Academy, Inc. and Subsidiaries as of December 31, 1967, and the results of their operations and the funds provided and used for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Milwaukee, Wisconsin,
March 20, 1968.

CAREER ACADEMY, INC. AND SUBSIDIARIES

DIRECTORS AND EXECUTIVE OFFICERS

DIRECTORS

W. D. Pavalon President and Chairman of the Board
F. W. Johnson Educational Consultant
G. J. Kahn Secretary and Treasurer
W. L. Liebman President, Loewi & Co. Incorporated
K. M. Parelskin Senior Vice President
G. S. Parker II President, The Parker Pen Company
M. H. Pavalon Executive Vice President
S. L. Rewey Executive Vice President, Marshall & Ilsley Bank
Robert St. John Author and Foreign Correspondent
J. A. Schelble M.D.
R. J. Teik D.D.S.

OFFICERS

W. D. Pavalon President
K. M. Parelskin Senior Vice President — Director of Operations
S. D. Mishlove Financial Vice President
A. Z. Becker Executive Vice President — Admissions
D. P. Nolan Executive Vice President — Resident Schools
M. H. Pavalon Executive Vice President — Purchasing
G. A. Egelseer Vice President — Home Study
R. Heymann Vice President — Personnel
M. B. Levin Vice President — Marketing
J. E. Reda Vice President — Central Services
R. J. Teik Vice President — Dental Consultant
G. J. Kahn Secretary and Treasurer
K. A. Morris Controller
P. A. Business Assistant Secretary
L. W. Henderson President, International Career Academy of Canada, Ltd.
M. Bourke, Managing Director, Lewis Hotel-Motel Training School, Inc.

DIRECTING FACULTIES OF CAREER ACADEMY SCHOOLS

BROADCASTING DIVISION

Fran Allison
Danny Gallivan
Earl Gillespie
Merle Harmon
Larry Henderson
Howard Miller
Robert St. John
John Cameron Swayze
Ulmer Turner
Westbrook Van Voorhis

MEDICAL-DENTAL DIVISION

J. A. Argovitz, DDS	Mark Oscherwitz, MD
Louis Brachman, MD	John Rosen, DDS
Clifton R. Brooks, MD	James A. Schelble, MD
T. J. Bryant, MD	Robert Siegel, DDS
Guy O. Everhart, MD	Edward G. Skultety, Jr., DDS
Robert G. Fletcher, MD	Robert J. Teik, DDS
Murray Herman, MD	Clinton G. Weiman, MD
John Lane, DDS	Charles H. Williams, MD
Edward S. Levy, MD	Paul Wolin, DDS
Herman A. Levy, MD	Gary D. Zuck, DDS
T. M. Limoli, DDS	

LEGAL COUNSEL Godfrey & Kahn

AUDITORS Arthur Andersen & Co.

TRANSFER AGENTS Marine Midland Grace Trust Company of New York
Marine National Exchange Bank, Milwaukee

REGISTRARS Irving Trust Co., New York
Marine National Exchange Bank, Milwaukee

INVESTMENT BANKERS Loewi & Co. Incorporated
Loeb Rhoades & Co.

